

## TABLE OF CONTENTS

List of Figures and Tables .....	ii
Introduction.....	1
What Are Tax Expenditures? .....	1
Why Publish a Tax Expenditure Report? .....	1
How to Read This Report .....	3
Alcoholic Beverage Taxes .....	7
Cigarette Tax.....	11
Coal Severance and Processing Tax .....	13
Corporation Income and License Taxes.....	17
Gasoline Tax .....	31
Individual Income Tax .....	35
Inheritance and Estate Tax .....	55
Liquified Petroleum Gas Tax.....	63
Motor Vehicle Usage Tax .....	65
Natural Resources Severance and Processing Tax .....	73
Property Taxes .....	77
Sales and Use Tax .....	91
Sales Tax Exemptions for Farmers .....	106
Exclusion of Services .....	110
Special Fuels Tax .....	113
Earmarked Funds.....	119
Tax Increment Financing .....	125

## LIST OF FIGURES AND TABLES

### Figures:

1. General Fund Overview .....	5
2. Road Fund Overview .....	5
3. Allocation of Property Taxes .....	78

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### Tables:

1. Total Alcoholic Beverage Tax Expenditures.....	8
2. Total Cigarette Tax Expenditures.....	12
3. Total Coal Severance and Processing Tax Expenditures.....	14
4. Corporation Income Tax Rates .....	18
5. Total Corporation Income and License Tax Expenditures .....	22
6. Total Gasoline Tax Expenditures .....	32
7. Individual Income Tax Rates .....	36
8. Low Income Tax Credit .....	36
9. Total Individual Income Tax Expenditures.....	39
10. Total Inheritance and Estate Tax Expenditures.....	57
11. Total Liquified Petroleum Gas Tax Expenditures.....	64
12. Total Motor Vehicle Usage Tax Expenditures .....	66
13. Total Natural Resources Severance & Processing Tax Expenditures .....	74
14. Total Property Tax Expenditures .....	79
15. Total Sales and Use Tax Expenditures .....	93
16. Subtotal for Farming Tax Expenditures .....	110
17. Total for Excluded Services .....	112
18. Total Special Fuels Tax Expenditures .....	114
19. Total Earmarked Funds .....	120
20. Tax Increment Financing Tax Expenditures .....	127

The purpose of a Tax Expenditure Analysis is to catalog and quantify specific tax reductions that have been granted in statute. An item is considered a ‘tax expenditure’ if the tax revenue associated with that item is reduced because of a specific statute.

Direct budgetary expenditures are made by distributing funds actually collected by the Commonwealth, while tax expenditures are made by granting preferential tax treatment that allows the targeted recipient to retain tax dollars that would otherwise be paid in taxes to the Commonwealth.

Direct expenditures are evaluated during each budget cycle, and are approved, adjusted, or rejected during the budget process. Tax expenditures, however, are evaluated and approved only when the statutory adjustment is made. There is no requirement to revisit or re-evaluate tax expenditures once they are passed and placed within statute. So direct expenditures receive regular review and re-approval, while tax expenditures rarely receive any additional review once placed within statute.

This report itemizes tax expenditures by tax type. The report quantifies the amount of potential tax revenue within each tax type that is foregone because of the statutory implementation of these expenditures.

Tax Expenditures function in different ways to accomplish the intended goals. A sales tax exemption almost always results in some product being sold without the sales tax or transaction tax being assessed or collected. This results in a lower net cost to the purchaser, and lower revenues to the Commonwealth. An individual income tax exemption will usually result in lower amounts of tax withheld from employees, and a correspondingly lower remittance to the Commonwealth. Corporate tax expenditures usually result in lower direct payments from businesses. Tax Expenditures cover these and many more taxes. Whatever the expenditure may be and whatever the tax type involved, tax revenues are directly decreased because of these statutory exemptions.

Following is a list of each major tax type, with a brief description of the tax and an estimate of the amount of potential tax revenue not collected because of the tax expenditures related to that tax.

- ? ***Alcoholic Beverage Taxes*** – Various taxes assessed on all types of alcoholic beverages. First assessed in 1936, rates vary significantly based on the type of beverage and the percent of alcohol the beverage contains. The tax is paid by the wholesaler or distributor of the product. For FY03, alcoholic beverage taxes generated \$75.9 million in Kentucky. Tax expenditures within this tax type are estimated at \$835,000 for FY04.
- ? ***Cigarette Tax*** – A tax on each pack of cigarettes, it was first assessed in 1936. The rate of tax is three cents per pack, and is paid by the wholesaler, who purchases stamps to affix to each pack of cigarettes. For FY03, the cigarette tax generated \$16.4 million in Kentucky. Tax expenditures within this tax type are estimated at \$3.2 million for FY04.
- ? ***Coal Severance and Processing Tax*** – Assessed against the severance (removal) and processing of coal, this tax was first utilized in 1972. The tax is assessed at the rate of 4.5% of the gross value of the coal, with a minimum of fifty cents per ton. The tax is assessed against the person or entity severing or processing the coal. For FY03, this tax generated \$141.7 million; tax expenditures for this tax type are estimated at \$9.1 million for FY04.
- ? ***Corporation Income and License Taxes*** – Income tax was first assessed in 1936, against the net income attributable to Kentucky. Current rates of tax range from 4% to 8.25% of net income. License tax was first assessed in 1906, against capital employed (the combined value of owners' equity accounts and most borrowed monies). The current tax rate is \$2.10 per \$1,000 of capital employed, with credits allowed for smaller taxpayers. For FY03, corporation income and license taxes generated \$430.6 million. Tax expenditures for these taxes are estimated at \$183.3 million for FY04.
- ? ***Gasoline Tax*** – First levied in 1920, this tax is assessed on gallons of gasoline sold. The current minimum tax is fifteen cents per gallon; if the wholesale price rises significantly, the tax rate may also rise. For FY03, this tax generated \$333.9 million; tax expenditures for this tax are estimated at \$9.0 million for FY04.

- ? ***Individual Income Tax*** – First imposed in 1936, this tax is the most productive revenue source to Kentucky. The top tax rate of 6% is applied to taxable income above \$8,000. Employers withhold income tax from employees’ wages; non-wage income is subject to estimated payments by the taxpayer. For FY03, this tax generated \$2,746 million; tax expenditures for this tax are estimated at \$2,091.2 million for FY04.
- ? ***Inheritance and Estate Tax*** – First adopted in 1906, this tax is assessed against the value transferred from the estates of deceased Kentuckians. The tax rate and the amount subject to tax are based on the ‘class’ of the beneficiary. For FY03, this tax generated \$95.9 million; tax expenditures for this tax are estimated at \$153.7 million for FY04.
- ? ***Liquefied Petroleum Gas Tax*** – Implemented in 1960 as a ‘companion’ to the gasoline tax, this tax is assessed on gallons sold. The current minimum tax is fifteen cents per gallon; if the wholesale price rises significantly, the tax rate may also rise. For FY03, this tax generated \$207,000; tax expenditures for this tax are estimated at \$1,000 for FY04.
- ? ***Motor Vehicle Usage Tax*** – First assessed in 1936, the current tax rate is 6% of the retail price of motor vehicles. This tax is similar to a ‘sales’ tax, but proceeds are deposited into the Road Fund. For FY03, this tax generated \$432.9 million; tax expenditures are estimated at \$94.7 million for FY04.
- ? ***Natural Resources Severance and Processing Tax*** – First assessed in 1980, this tax is levied against the gross value of all minerals severed or processed in Kentucky, excluding coal and oil. For FY03, this tax generated \$27.3 million; tax expenditures are estimated at \$6.8 million for FY04.
- ? ***Property Taxes*** – Kentucky has had a property tax since becoming a state on June 1, 1792. Property is assessed at its fair market value; rates vary depending upon the type of property. For FY03, property taxes generated \$434.8 million; tax expenditures are estimated at \$941.1 million for FY04.

- ? ***Sales and Use Tax*** – The sales and use tax was first levied in its current form in 1960. The tax is collected on retail sales within the state, at a rate of 6% of the sales price. For FY03, this tax generated \$2,364.2 million; tax expenditures are estimated at \$2,269.7 million for FY04.
  
- ? ***Special Fuels Tax*** – This tax includes fuels other than gasoline that are used in motor vehicles. The current minimum tax is fifteen cents per gallon; if the wholesale price rises significantly, the tax rate may also rise. For FY03, this tax generated \$104.5 million; tax expenditures for this tax are estimated at \$49.1 million for FY04.
  
- ? ***Earmarked Funds*** – These items are included for informational purposes only. They do have a negative impact on the General Fund, but are technically not a tax expenditure since the tax is still collected from the taxpayer. Identified earmarked funds that are not deposited into the General Fund are estimated at \$20.9 million for FY04.

**What are tax expenditures?**

**T**ax expenditures are provisions such as special exemptions, exclusions, deductions, credits, deferrals, and preferential rates in tax law that result in a loss of tax revenue. Tax expenditures differ from normal budget expenditures in that normal budget expenditures are explicitly appropriated on an annual or biennial basis as part of the budgetary process. Tax expenditures are approved by the legislature and then become a permanent part of a state's tax laws, often without being routinely reviewed to determine fiscal impacts. As a result, tax expenditures have a tendency to become an increasingly larger part of state government expenditures without explicit approval by succeeding legislatures.

Not all deductions and exemptions allowed under the laws are classified as tax expenditures. Tax expenditures are best described as deviations from the "normal" or "appropriate" tax structure. For example, income tax is normally levied on income, after reducing for the expenses incurred to produce that income. Consequently, most business expenses are not tax expenditures. However, income that is exempted because of special circumstances, such as retirement income, would be considered a tax expenditure. Similarly, sales tax is usually levied on retail sales of tangible property. Therefore the failure to tax sales for resale, wholesale sales, or sales of certain services does not create a tax expenditure.

**Why publish a tax expenditure report?**

Tax expenditures are increasingly used to encourage certain kinds of behavior or to provide financial aid to taxpayers in certain circumstances. Major objectives include economic development, equity, fiscal responsibility, and tax reform. The unintended result is an increase in the complexity of the tax laws. Individual taxpayers as well as tax experts have found it difficult to keep informed of these many changes. In many cases, these decisions lead to less similarity between state and federal laws and ultimately to even more complexity. When such provisions are enacted, the resulting tax loss re-

duces the revenue available to fund other programs, unless tax rates are raised or new taxes are enacted to compensate for the loss.

Unlike direct appropriations, which must be continuously reviewed and approved by the General Assembly to remain in effect, tax expenditures are usually not included in this review process. As a result, programs funded through tax expenditures receive priority funding over all other programs. In all probability, many “tax expenditure” programs would not receive the same priority if they had to compete with “direct funding” programs.

A tax expenditure analysis can be used to evaluate the cost to state government of the many programs funded through tax expenditures. This analysis identifies, quantifies where possible, and explains many of the Kentucky tax expenditures. When possible, estimates of the costs of the tax expenditures were developed from information contained on taxpayers’ Kentucky tax returns, the most reliable source for data. In many cases, however, necessary information is not reflected on tax returns or the data is not captured. In such cases, alternative sources were used, including Bureau of the Census statistics, federal tax expenditure estimates, Bureau of Labor Statistics data, information from federal tax returns, and other studies.

The value of this analysis is not so much for potential revenue estimating purposes, but to give a description of Kentucky’s tax expenditures and their estimated impact in terms of lost General Fund and Road Fund revenue for a specific time period. The estimates for each tax expenditure contained in this analysis were made independently, with the assumption that all other provisions of the tax laws remained unchanged and that taxpayer behavior remained constant. This was done because the analysis attempts to measure the costs of the expenditures as they exist and not what would happen if one or more were repealed. This analysis should not be viewed as an estimate of the impact of repealing one or more tax expenditures since the estimated cost of the

expenditure(s) may not necessarily equal the increased revenue resulting from repeal. Similarly, the costs of two or more expenditures cannot be added together to produce the impact of simultaneous repeal, because each was computed without regard to the others. Due to graduated rates or other factors, the combined impact may be more or less than the sum of the individual tax expenditure amounts.

A number of states regularly compile tax expenditure reports and many have just started issuing the report in recent years. The information provided by such studies could assist policymakers in devising a fairer tax structure.

### **How to Read This Report**

This report catalogs or accumulates the various tax expenditures differently than in previous reports. New to the report is a recap of tax expenditures by tax type, to provide a more concise listing for quicker reference and comparison.

This report also contains the traditional method of identifying each expenditure by statute, with an estimate of the impact of that particular item, whether deduction, credit, exemption, rate reduction or other means utilized to alter or reduce a taxpayer's liability.

Within the traditional sections of the report, each identified tax type includes sections on:

- ? **Background** - a brief history of the tax;
- ? **Current rate structure** - how the tax is assessed and in what amount;
- ? **Tax base** - who owes the tax, who is assessed, or who collects the tax; and,
- ? **Tax due** - how, when, and where the tax is paid.

Additionally, some tax types contain a heading titled “Tax Expenditures Enacted during Fiscal Years 2002 - 2003” which includes the most recently enacted tax expenditures, the date they went into effect, and the enacting legislative bill number.

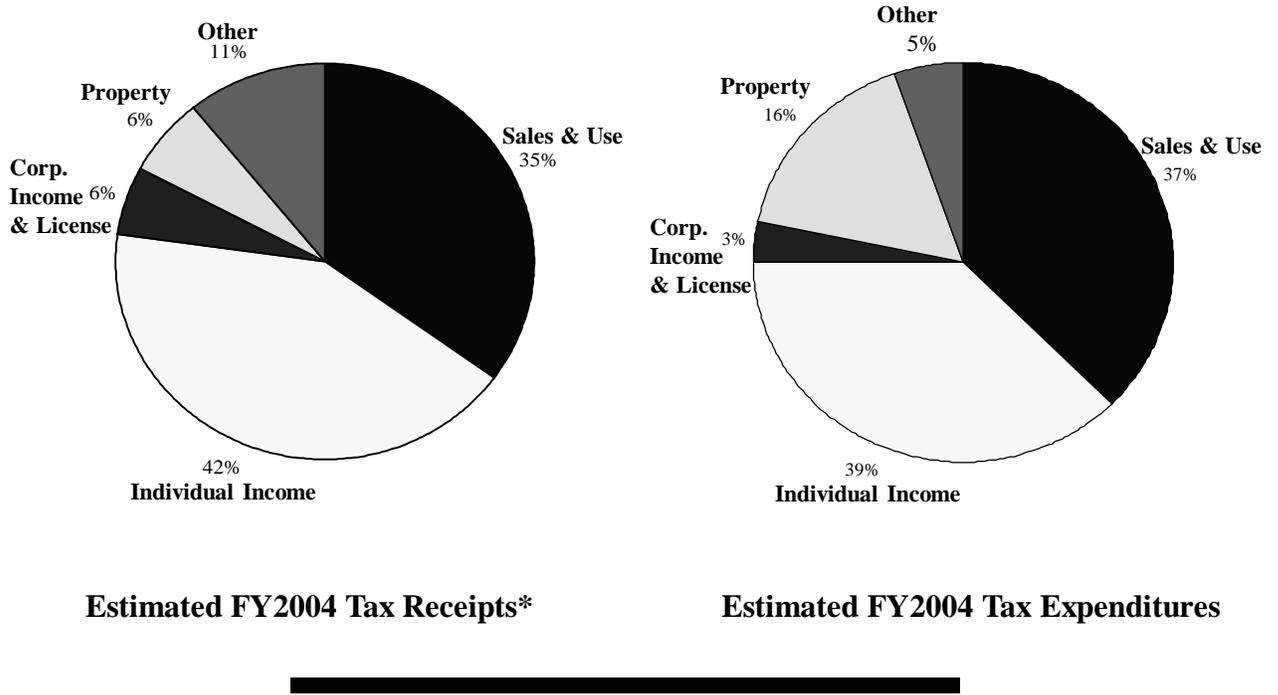
In some past reports, services excluded from the sales tax base have been listed as tax expenditures. While we will continue to quantify the exemption of certain services from sales tax, they will no longer be listed as a tax expenditure. A list of specific services and the estimated costs of excluding them from the tax can be found on pages 122-124 of this report.

Some taxes are specially allocated to a particular fund or purpose. These items are not listed as tax expenditures. Rather, these allocations are listed under the heading “Earmarked Funds” and can be found on pages 131-135.

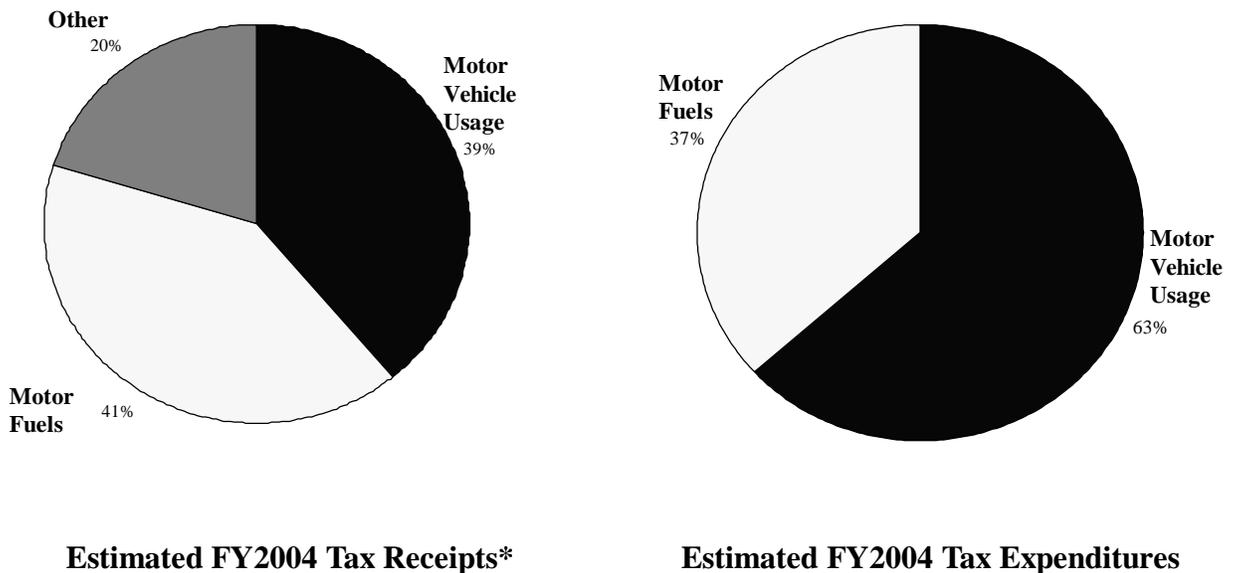
The Governor’s Office for Economic Analysis welcomes your comments and any questions you may have about this report.

**OVERVIEW OF TAX EXPENDITURES:** The following charts show taxes as a percentage of total estimated tax receipts and tax expenditures as a percentage of total estimated tax expenditures for Fiscal Year 2004.

**Figure 1. General Fund Overview**



**Figure 2. Road Fund Overview**



\*Based on Official January 2003 Estimates



New to this issue of the Tax Expenditure Analysis is a condensed presentation of Tax Expenditure items in table format. This table is a recap of the traditional tax expenditures analysis in a condensed form that is much easier to review and reference. It lists each statutory exemption, deduction, credit, rate adjustment, or other tax reduction by major tax type. Within each tax type, expenditures are generally listed from those in existence the longest to those most recently granted.

It is important to once again point out that each tax expenditure stands on its own, and that receipts from multiple expenditures repealed at the same time would not necessarily equal the sum of the amounts listed in this report. Many of the expenditures overlap and accordingly the totals listed under each category of tax type or program/recipient benefited are not reflective of the total tax benefit afforded that tax type or group. For example, the exclusion of 'life insurance proceeds' from the inheritance tax is estimated to remove \$25 million annually from inheritance tax receipts. However, the large majority of those proceeds would be received by Class A beneficiaries, where the funds received would be exempted from tax anyway (the Class A exemption is valued at \$68.2 million in FY04). To add the estimated amounts of those two categories together would overstate the expected value if the exemptions were repealed at the same time. The table makes no attempt to correct for this.

Because of the interaction of expenditures, it is difficult to project future values for many expenditures. Accordingly, these estimates may be an inadequate basis for future projections.

## Tax Expenditures by Tax Type (\$ millions)

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
<b>Alcoholic Beverage Taxes</b>			
U.S. Government Exemption	0.20	0.21	0.21
Reduced Rate for 'Low Volume' spirits	0.04	0.04	0.04
Wholesaler Compensation for Collection of Tax	<u>0.60</u>	<u>0.60</u>	<u>0.60</u>
<b>Total Alcoholic Beverage Tax Expenditures</b>	<b>0.84</b>	<b>0.85</b>	<b>0.85</b>
<b>Cigarette Tax</b>			
U.S. Government Exemption	2.30	2.30	2.30
Wholesaler Compensation for Collection	<u>0.90</u>	<u>2.00</u>	<u>2.00</u>
<b>Total Cigarette Tax Expenditures</b>	<b>3.20</b>	<b>4.30</b>	<b>4.30</b>
<b>Coal Severance and Processing Tax</b>			
Transportation Expense	9.00	9.00	9.00
Coal Used to Burn Solid Waste	0.00	0.00	0.00
Thin Seam Credit	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>
<b>Total Coal Severance and Processing Tax Expenditures</b>	<b>9.10</b>	<b>9.10</b>	<b>9.10</b>
<b>Corporation Income and License Taxes</b>			
Net Operating Loss Deduction	40.00	41.00	42.50
Exemption of Dividend Income	27.70	28.20	29.10
Exclusion of 50% of Coal Royalties	0.10	0.10	0.10
Excess of Percentage over Cost Depletion	5.20	5.20	5.20
Charitable Contribution Deduction	5.20	5.20	5.30
Patronage Dividend Deduction	0.10	0.10	0.10
Unemployment Tax Credit	0.00	0.00	0.00
Income Exemption for Credit Unions	5.10	5.10	5.20
Coal Conversion Credit	0.20	0.20	0.20
Double Weighted Sales Factor	32.00	33.00	34.00
Recycling Credit	1.20	1.40	1.40
Enterprise Zone Credit - Unemployed hiring	0.15	0.05	0.05
KREDA Economic Development Credit	12.00	12.80	13.40
KIDA Economic Development Credit	11.50	12.10	12.60
KIRA Economic Development Credit	1.20	1.30	1.50
KJDA Economic Development Credit	8.30	8.50	8.90
Kentucky Investment Fund Credit	0.80	1.50	1.70
Skills Training Investment Credit	2.00	2.00	2.10
Real Estate Investment Trust	0.00	0.00	0.00
KYOZ Economic Development Credit	0.00	0.00	0.00
LLC/LLP Not Subject to License Tax	29.90	31.30	32.70
Coal Incentive Tax Credit	<u>0.60</u>	<u>0.90</u>	<u>1.10</u>
<b>Total Corporation Income and License Tax Expenditures</b>	<b>183.25</b>	<b>189.95</b>	<b>197.15</b>
<b>Gasoline Tax</b>			
U.S. Government Exemption	0.10	0.10	0.10
Agricultural Exemption	0.15	0.15	0.16
Aircraft Refund	0.22	0.23	0.23
Watercraft Refund	0.75	0.76	0.77
Bus, Taxicab, and Certain Senior Citizen's Program Refund	0.30	0.31	0.31
Dealer's Monthly Reporting Allowance	<u>7.50</u>	<u>7.50</u>	<u>7.60</u>
<b>Total Gasoline Tax Expenditures</b>	<b>9.02</b>	<b>9.05</b>	<b>9.17</b>
<b>Individual Income Tax</b>			
Pension Contributions by Employer	265.30	273.10	281.30
Personal and Dependent Tax Credits	75.90	77.30	78.70
Standard Deduction	92.00	93.40	94.70
Home Mortgage Interest Deduction	132.80	135.10	138.20
Property Tax on Home	45.90	48.20	51.80
Taxes Other Than Home Property Tax	37.40	38.30	39.30
Medical Insurance Provided by Employer	260.10	278.30	297.80

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
Social Security Benefits Not Taxable	309.00	330.60	353.80
Charitable Contributions Deduction	78.80	80.10	82.20
Exclusion of Interest Growth in Life Insurance	55.00	56.10	57.40
Exclusion of Capital Gains at Death	82.00	83.90	85.80
Deduction for Individual Retirement Accounts	17.10	17.40	17.70
Deduction for KEOGH Retirement Accounts	6.60	6.70	6.80
Exclusion of Federal and Military Retirement Income	54.80	58.60	62.70
Exclusion of Premiums on Group Term Life Ins.	4.50	4.60	4.80
Exclusion of Worker's Compensation Benefits	7.50	7.70	7.90
Exclusion of Veteran's Disability Benefits	6.10	6.10	6.20
Credit for Child and Dependent Care Expenses	5.80	5.90	5.90
Deduction for Foreign Income Tax	0.00	3.30	3.30
Exclusion of Income Earned Abroad by US Citizens	4.80	4.80	4.90
Excess of Percentage over Cost Depletion	1.10	1.10	1.10
Deduction for Medical Expenses	22.80	24.00	25.10
Net Operating Loss Deduction	40.00	40.00	40.00
Employer Provided Meals and Lodging	1.50	1.50	1.60
Railroad and Supplemental Railroad Retirement	9.90	10.30	10.60
Exclusion of State Employee Pension Benefits	47.20	51.20	55.60
Exclusion of Private Pensions and IRA's	133.10	145.00	158.10
Exclusion of Scholarship & Fellowship Income	3.20	3.50	3.80
Exclusion of Public Assistance Benefits	1.90	1.90	1.90
Credit for Hiring the Unemployed	0.01	0.01	0.01
Exclusion of Special Benefits for Coal Miners	3.70	3.70	3.60
Exclusion of GI Bill Benefits	0.30	0.30	0.30
Deduction for Certain Capital Outlays (Sec. 179)	13.40	13.60	13.80
Low Income Tax Credit	47.50	47.50	47.50
Exclusion of 'Cafeteria Plan' Benefits	23.80	24.80	25.90
Exclusion of Miscellaneous Fringe Benefits	10.10	10.80	11.50
Deduction for Casualty and Theft Losses	0.55	0.55	0.55
Credit for Recycling and Composting Equipment	1.00	1.10	1.10
Job Development Assessment Fees (Economic Dev.)	57.00	63.50	68.00
Untaxed Medicare Benefits - Hospital Insurance	49.80	51.00	52.60
Untaxed Medicare Benefits - Medical Care Insurance	27.50	28.20	29.00
Deduction for Moving Expenses	5.00	5.10	5.10
Exclusion of Gain on Sale of Personal Residence	27.50	29.00	30.60
Savings Incentives Match Plans for Employees	0.10	0.10	0.10
Deduction for Self-Employed Health Insurance	4.60	4.70	4.80
Health Insurance Premiums - Private Policies	8.80	9.20	9.60
Roth IRA distributions	0.00	0.00	0.00
Deduction for Educational Loans Interest	1.50	1.60	1.70
Exemption of Income of Precinct Workers	0.08	0.08	0.08
Tobacco Settlement Funds Exclusion	5.00	5.00	5.00
No Capital Gains on Eminent Domain Takings	0.11	0.12	0.13
Deduction for Long-Term Care Insurance Premiums	0.75	0.60	0.45
Distribution from 'S-Corp' Financial Inst. not taxable	1.00	1.00	1.00
<b>Total Individual Income Tax Expenditures</b>	<b>2,091.20</b>	<b>2,189.56</b>	<b>2,291.42</b>

**Inheritance and Estate Tax**

Class A Beneficiary Exclusion	68.20	71.50	75.00
Educational, Religious, Charitable Transfers	5.30	3.80	2.80
Early Payment Discount	1.20	0.80	0.60
Class B Beneficiary Exclusion	0.10	0.10	0.10
Class C Beneficiary Exclusion	0.05	0.05	0.05
Life Insurance Proceeds	25.00	25.00	25.00
Assessment of Land at Agricultural Value	0.60	0.60	0.60
CD's Exempt from Contemplation of Death Rule	0.25	0.25	0.25
Exclusion of Annuities of Qualified Retirement Plans	0.10	0.10	0.10
Exclusion of Certain Individual Retirement Accounts	0.05	0.05	0.05

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
Recurring Assessment Tax Credits	0.10	0.10	0.10
Lifetime Transfer Exclusion	28.80	20.30	13.50
Exclusion of Benefits Under Military Retirement Plans	0.05	0.05	0.05
Time of War Benefits are Excluded	0.01	0.01	0.01
Reduction of Federal Estate Tax Credit	<u>23.90</u>	<u>37.70</u>	<u>52.90</u>
<b>Total Inheritance and Estate Tax Expenditures</b>	<b>153.71</b>	<b>160.41</b>	<b>171.11</b>
<b>Liquefied Petroleum Gas Tax</b>			
Dealer's Monthly Reporting Allowance	0.00	0.00	0.00
Approved Carburetion System Exclusion	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Liquefied Petroleum Gas Tax Expenditures</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Motor Vehicle Usage Tax</b>			
Trade-In Allowance on Used Vehicles	54.10	55.50	57.00
Immediate Family Member Transfer Not Taxable	14.50	14.90	15.20
Governmental Exemption	7.50	7.70	7.90
Enterprise Zone Exemption	3.80	1.30	1.10
Military Serviceperson Exemption	3.50	3.60	3.70
Repossessed Exemption	0.70	0.71	0.72
Transfers by Will or Court Order	1.60	1.70	1.70
Educational and Charitable Organizations	0.80	0.81	0.82
Enterprise Zone Exemption - U-Drive-It Tax	2.40	1.80	1.60
Commercial Motor Vehicle Exemption	0.00	0.00	0.00
Change in Business Structure Exemption	0.25	0.25	0.25
Transfers between LLC/LLP and Owners	0.10	0.10	0.10
Transfers between Subsidiary and Parent	0.15	0.15	0.15
Partnership Transfers	0.00	0.00	0.00
Insurance Company Transfers	4.20	4.20	4.20
Adapted Equipment for Handicapped Not Taxable	0.06	0.06	0.06
Large Truck Exclusion	<u>1.00</u>	<u>2.60</u>	<u>2.80</u>
<b>Total Motor Vehicle Usage Tax Expenditures</b>	<b>94.66</b>	<b>95.38</b>	<b>97.30</b>
<b>Natural Resources Severance and Processing Taxes</b>			
Transportation Expense Deduction	4.10	4.20	4.30
Limestone Sold in Interstate Commerce is Exempt	1.80	1.80	1.80
Limestone Sold for Agricultural Purposes	0.20	0.20	0.20
Miscellaneous Special Minerals Exemption	0.45	0.45	0.45
Limit on Tax from Clay	0.15	0.15	0.15
Clay Used in Landfills	0.10	0.10	0.10
Tax Credit for Recovering Inactive Oil and Gas Wells	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Severance and Processing Tax Expenditures</b>	<b>6.80</b>	<b>6.90</b>	<b>7.00</b>
<b>Property Tax</b>			
State Real Property Tax Yearly Revenue Ceiling (HB 44)	291.60	311.60	333.00
Alcohol Production Facilities	0.00	0.00	0.00
Leasehold Interests in Industrial Revenue Bond Bldgs.	2.50	2.80	3.00
Homestead Exemption	12.60	13.30	14.10
Agricultural Land Assessment Protection	0.10	0.10	0.10
Intrastate Railroads and Railway Companies - Real Prop.	0.02	0.02	0.02
Business Inventories	54.80	57.60	60.50
Leasehold Interests	2.80	2.80	2.80
Manufacturing Machinery, Pollution Control, Radio &TV	57.20	60.40	63.70
Machinery Used in Farming, Livestock and Poultry	22.50	22.50	22.50
Agricultural Products Reduced Rate	0.26	0.26	0.26
Foreign Trade Zone Property	24.40	24.40	24.40
Historic Vehicles	0.09	0.09	0.09
Intrastate Railroads and Railway Companies - Tangible	0.33	0.33	0.33
Interstate Trucks, Tractors, Semi-Trailers, and Buses	3.30	3.50	3.70
Special Railroad Carlines	3.20	3.20	3.20

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
Non-Commercial Aircraft	1.00	1.00	1.00
Federally Documented Vessels	0.10	0.10	0.10
Floor Plan Financed Machinery and Equipment	0.10	0.10	0.10
In-Transit Warehoused Goods	10.80	10.80	10.80
Motor Vehicles with a Salvage Title held by Insurance Companies	0.05	0.05	0.05
Specially Identified Classes of Intangible Properties at a 1.5 cent rate	25.20	25.20	25.20
Bank Deposits	114.50	117.00	119.60
Exemption of Stock from Intangible Property Tax	180.40	180.40	180.40
Retirement Plans Taxed at Reduced Rate	51.80	53.90	56.00
Special Rates on Cooperatives and Production Credit Assoc.	5.00	4.50	4.40
Certain Classes of Intangible Property at one-tenth cent rate	65.30	65.30	65.30
Exemption for Credit Union Accounts and Shares	9.70	9.70	9.70
Reduced Rate on Broker's Accounts Receivable	0.57	0.57	0.57
Reduced Rate on Domestic Life Insurance Reserves and Capital	<u>0.90</u>	<u>0.90</u>	<u>0.90</u>
<b>Total Property Tax Expenditures</b>	<b>941.11</b>	<b>972.41</b>	<b>1,005.81</b>
<b>Sales and Use Taxes</b>			
Food Items	414.60	427.00	439.80
Baked Goods	0.00	4.10	4.10
Non-Profit Educational, Charitable and Religious Institutions	140.50	144.70	149.00
Labor and Services Used in Property Sold	171.10	176.20	181.50
Residential Utilities	134.40	138.40	142.60
Prescription Medicine, Prosthetics, Physical Aids	244.00	251.30	258.80
Machinery for New and Expanded Industry	67.50	68.80	70.20
Coal Used in the Manufacture of Electricity	55.00	57.10	59.20
Energy and Energy Producing Fuels	55.50	56.20	56.90
Retailers' Compensation for Collecting Sales Tax	11.20	18.30	18.60
Enterprise Zones	38.00	14.00	10.00
State, Cities, Counties, Special Districts Exemption	85.80	88.40	91.00
Textbook Exemption	4.20	4.30	4.50
Recycling Machinery and Equipment	3.50	3.60	3.70
Pollution Control Facilities	13.50	13.90	14.30
Tombstones and Grave Markers	2.80	3.00	3.10
Lodgings of Thirty Days or More	2.30	2.30	2.40
Garage and Yard Sales	2.20	2.20	2.30
Semi-Trailers and Trailers	11.20	11.70	12.10
Vessels and Maritime Supplies	4.20	4.20	4.30
Sales by School-Sponsored Clubs and Organizations	5.90	5.90	6.00
Interstate Cargo and Passenger Aircraft, Parts & Supplies	36.20	37.40	38.80
Sales by Higher Education Clubs and Organizations	1.20	1.20	1.30
Sales to Motion Picture Companies	0.10	0.10	0.10
Admissions and Purchases at Historic Sites	3.00	3.10	3.20
Sales to Credit Unions	1.20	1.20	1.20
Coin Operated Bulk Vending Machines	2.10	2.10	2.20
Non Returnable and Returnable Containers	1.20	1.20	1.20
Occasional Sales	120.00	120.00	120.00
Locomotives and Rolling Stock	1.50	1.50	1.50
Blood or Human Tissue	0.90	0.90	0.90
School Tax Portion of Residential Telephone Bill	4.00	4.10	4.30
Raw Materials and Industrial Supplies	453.20	466.80	480.80
Federal Tax Portion of Sale of Tangible Personal Property	4.10	4.30	4.50
Sales to Common Carriers Under a Bill of Lading	0.00	0.00	0.00
Lease or Rental of Films by Commercial Theaters	1.10	1.10	1.20
Tourism Attraction Project Credit/Refund	4.50	4.80	5.10
Alcohol Production Facilities	0.00	0.00	0.00
Fluidized Bed Energy Production Facility Exemption	0.00	0.00	0.00
Catalog and Newspaper Inserts Shipped Outside Kentucky	3.00	3.00	3.00

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
Exemption for Sales by 4-H Clubs	0.10	0.10	0.10
Jet Fuel Tax is Capped at \$1 million per Carrier	19.30	20.00	20.70
Repair parts for Large Trucks	1.50	4.00	4.10
Various Farm Products and Supplies	87.10	89.70	92.40
Horses Purchased for Breeding	12.30	12.50	12.60
Various Farm Machinery and Facilities	12.90	13.30	13.70
Fuel Used for Farm Purposes	7.10	7.30	7.50
Water Used for Most Farm Purposes	0.05	0.05	0.05
Water Used for Equine Purposes	0.05	0.05	0.05
Aquaculture Supplies and Products	0.10	0.11	0.11
Baling Twine and Wire	0.03	0.03	0.03
Horses Less Than Two Years of Age	17.20	17.80	18.60
Farm Chemicals	<u>7.30</u>	<u>7.50</u>	<u>7.70</u>
<b>Total Sales and Use Tax Expenditures</b>	<b>2,269.73</b>	<b>2,320.84</b>	<b>2,381.34</b>

**Sales Tax**

**Excluded Services:**

<i>Personal Services</i>	59.30	63.00	67.00
<i>Business Services</i>	168.60	179.10	190.30
<i>Health Services</i>	421.30	447.60	475.50
<i>Legal Services</i>	74.50	79.20	84.10
<i>Educational Services</i>	5.00	5.30	5.60
<i>Social Services</i>	13.60	14.50	15.40
<i>Engineering, Accounting, Research, Management</i>	99.80	106.00	112.60
<i>Automotive and Miscellaneous Repair Services</i>	110.80	117.70	125.00
<i>Amusement and Recreational Services</i>	13.40	14.30	15.10
<i>Other Services</i>	<u>5.10</u>	<u>5.40</u>	<u>5.70</u>
<b>Total Sales Tax Excluded Services</b>	<b>971.40</b>	<b>1,032.10</b>	<b>1,096.30</b>

**Special Fuels Taxes**

Non-Highway Use Exemption	27.00	28.00	29.00
Railroad Companies	12.20	12.50	12.70
Agricultural Use Exemption	3.50	3.60	3.70
Dealer's Monthly Reporting Allowance	2.30	2.30	2.30
Residential Heating	1.40	1.40	1.40
Bus, Taxicab and Certain Senior Citizen's Program Refunds	0.31	0.32	0.32
State and Local Government Use	0.20	0.20	0.20
Religious, Charitable, Educational Use	0.20	0.20	0.20
Watercraft Use Exemption	0.03	0.03	0.03
U.S. Government Exemption	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
<b>Total Special Fuels Tax Expenditures</b>	<b>49.14</b>	<b>50.55</b>	<b>51.85</b>

**Earmarked Funds**

Thoroughbred Development Fund - Pari-mutuel Tax	8.20	8.30	8.30
Equine Industry Program Trust/Revolving Fund - Pari-mutuel Tax	0.53	0.53	0.53
Higher Education Equine Trust/Revolving Fund - Pari-mutuel Tax	0.55	0.55	0.55
Standardbred Development Fund - Pari-mutuel Tax	0.43	0.43	0.43
Teen Tobacco Enforcement Program - Cigarette Tax	0.53	0.54	0.54
Kentucky Transportation Center - Motor Fuels Tax	0.19	0.19	0.19
Tobacco Research Trust Fund - Cigarette Tax	3.30	3.40	3.50
Agricultural Diversification and Development Fund - Cigarette Tax	0.00	0.00	0.00
Equine Drug Research - Pari-mutuel Tax	0.60	0.60	0.60
Kentucky Aviation Economic Development Fund - Sales Tax	5.60	5.70	5.80
Tax Increment Financing - Various Taxes	<u>1.00</u>	<u>2.50</u>	<u>2.75</u>
<b>Total Earmarked Funds</b>	<b>20.93</b>	<b>22.74</b>	<b>23.19</b>

<b>TOTAL IDENTIFIED TAX EXPENDITURES</b>	<b>5,832.67</b>	<b>6,032.00</b>	<b>6,249.68</b>
<i>(Not Including Sales Tax Excluded Services)</i>			